

AR08



Morrison Petroleum Ltd.

**Annual Report
1980**



Board of Directors

- *† Michael A. Columbus, *Calgary, Alberta*
William James, *Toronto, Ontario*
- † Hank Reimer, *Toronto, Ontario*
George T. Smith, *Toronto, Ontario*
- * Arthur W. Stollery, *Toronto, Ontario*
- * A. Gordon Stollery, *Calgary, Alberta*
- # Jack D. Harvie, *Toronto, Ontario*
- † Stan J. Chad, *Calgary, Alberta*

Honorary Directors

- Dr. Paul W. Ferris, *Toronto, Ontario*
- # Robert M. Smith, *Oakville, Ontario*
- Donald R. Watt, *Toronto, Ontario*

* Member of the Executive Committee

† Member of the Audit Committee

Effective May 5, 1981

Officers

- Arthur W. Stollery, *Chairman of the Board*
- A. Gordon Stollery, *President*
- George T. Smith, *Vice-President*
- Michael A. Columbus, *Vice-President Finance*
& *Secretary-Treasurer*

Senior Personnel

- Joe W. Harris, *Consulting Petroleum Geologist*
- Charles J. Pearn, *Chief Geophysicist*
- Frank van der Vliet, *Senior Geologist*

Auditors

Coopers & Lybrand
Calgary, Alberta

Subsidiary Companies

Morrison Nuclear, Inc.
Petroguard Limited

Registrar and Transfer Agent

Canada Permanent Trust Company
Toronto, Ontario

Bankers

Canadian Imperial Bank of Commerce
Calgary, Alberta

Shares Listed

Toronto Stock Exchange
Symbol MRP

Executive Offices

Suite 1003
605 Fifth Avenue S.W.
Calgary, Alberta T2P 3H5
(403) 262-5242

Cover

The cover of the Annual Report is a photomicrograph of porous sandstone oil reservoir from one of Morrison's producing wells in Southern Alberta.



Directors' Report to Shareholders

The year 1980 was highlighted by the following events:

1. the change in the Company's name from Consolidated Morrison Explorations, Limited to Morrison Petroleum Ltd.
2. continued strong investment in oil and gas properties which exceeded \$5,500,000
3. the disposition of the Company's holding in Noranda Mines Ltd.

As will be noted in the accompanying Financial Statements, the Company has a strong and unleveraged balance sheet. Cash flow from oil and gas production operations is growing and will give the Company a solid operating base for the future. Although we disposed of our Noranda shares with regret, almost without exception, our oil and gas ventures have been profitable beyond our initial expectations.

The financial strength of the Company improved markedly in 1980. Working capital increased to \$3,759,180 compared with a negative working capital of \$1,839,974 in 1979. Oil and gas revenue exceeded \$1,000,000 for the first time. Overheads also grew substantially in 1980 but much of this reflects costs associated with establishing a new Calgary office and office duplication for much of the year. Shareholders are now advised that all future correspondence and telephone calls should be addressed to our new Calgary office.

During 1981, Morrison plans to add to its technical staff and increase the pace of its grass roots exploration. Our efforts will be apportioned 75% to Canada and 25% to the U.S.A.

We are pleased to welcome Mr. Stan J. Chad and Mr. Jack D. Harvie as new

Directors of the Company. Both gentlemen are Petroleum Engineers. Mr. Chad is President of Signalta Resources Ltd. Mr. Harvie was formerly Manager for Business Development for Imperial Oil Limited. Mr. Robert M. Smith was appointed an Honorary Director of the Company. We appreciate his many years of active support.

On behalf of the Board of Directors,

A.G. Stollery
President
May 12, 1981



DRILLING RESULTS — 1980

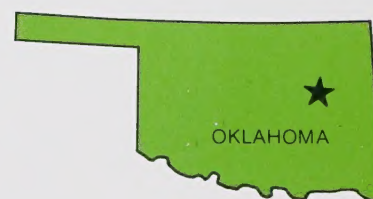
	Gross	Net
Oil	14	3.0
Gas	119	7.6
Dry	49	3.3
Total	182	13.9

OIL AND GAS LEASES EFFECTIVE DECEMBER 31, 1980

	Gross Acres (1)	Net Acres (2)
Alberta	499,252	26,561
British Columbia	58,158	751
Total Canada	557,410	27,312
Total United States (3)	17,240	2,635
Total	574,650	29,947

Notes:

- (1) "Gross Acres" means the total number of acres in which the Company has a working interest.
- (2) "Net Acres" means the number obtained by multiplying Gross Acres by the Company's percentage working interest therein.
- (3) Subsequent to the year-end, the Company sold its working interest in approximately 16,500 gross acres (2,500 net acres) for a cash consideration retaining a small overriding royalty.



★ FIELDS-TANNER LEASES
QUAD JOINT VENTURE

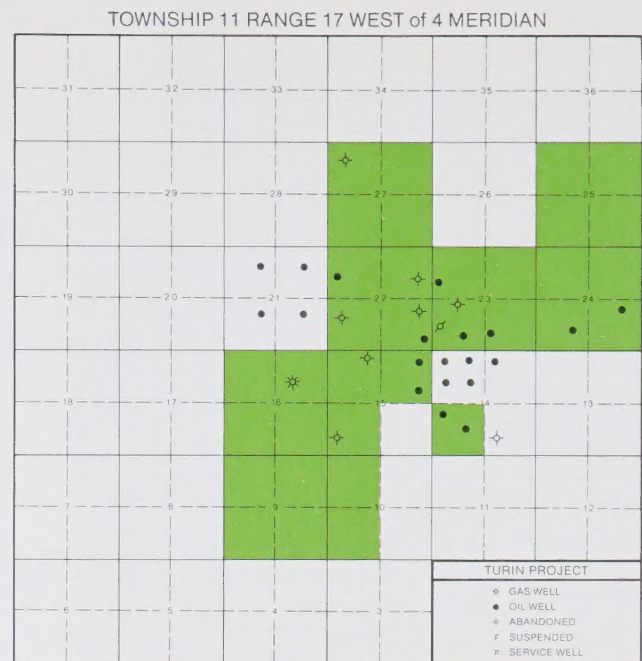
OIL & GAS RESERVE SUMMARY EFFECTIVE DECEMBER 31, 1980

	Net Working Interest Remaining Reserves Before Deduction of Royalties		Future Cash Flow Before Income Taxes	
	Oil (MSTB)	Gas (BCF)	Undiscounted (\$)	Discounted @ 15% (\$)
Proven & Probable	699	9.8	54,321,000	19,490,000

CANADIAN OIL AND GAS EXPLORATION AND DEVELOPMENT

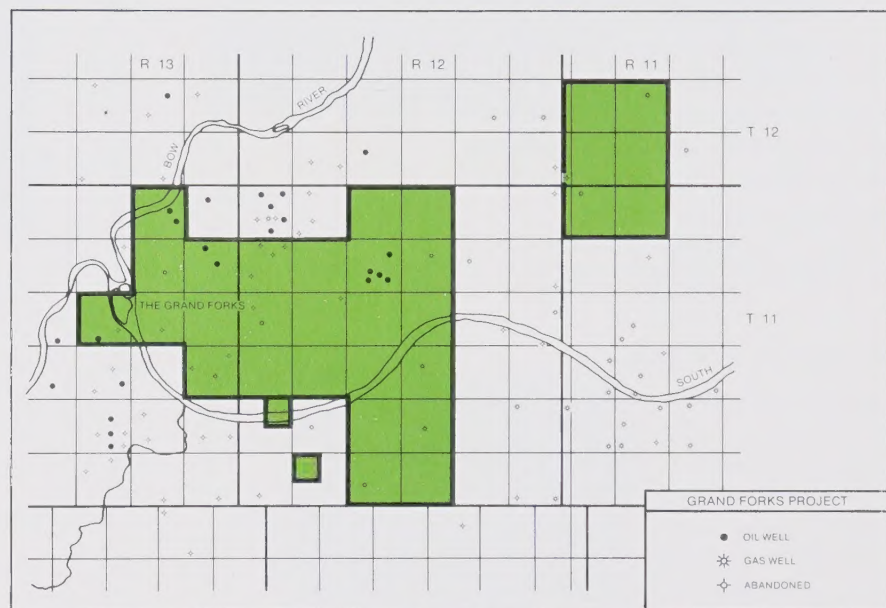
Turin Project

Morrison operates and has interests varying from 22.5% to 36.0% in 7,040 acres in the Turin area of Southeastern Alberta (see accompanying map). When Morrison acquired the property in 1979, there existed 3 oil wells, 2 shut-in gas wells and a water disposal well. Subsequently, in 1979, Morrison drilled 2 successful oil wells on the property. In 1980, a detailed seismic program was conducted which resulted in the drilling of 3 successful oil wells. An additional 5 wells were drilled in the first 4 months of 1981 resulting in 3 oil wells and 2 dry holes. When all wells are completed, Morrison will have interests in 11 oil wells, 2 shut-in gas wells and 1 water disposal well in the Turin Project. Additional seismic has recently been completed and further drilling will commence in August-September, 1981.



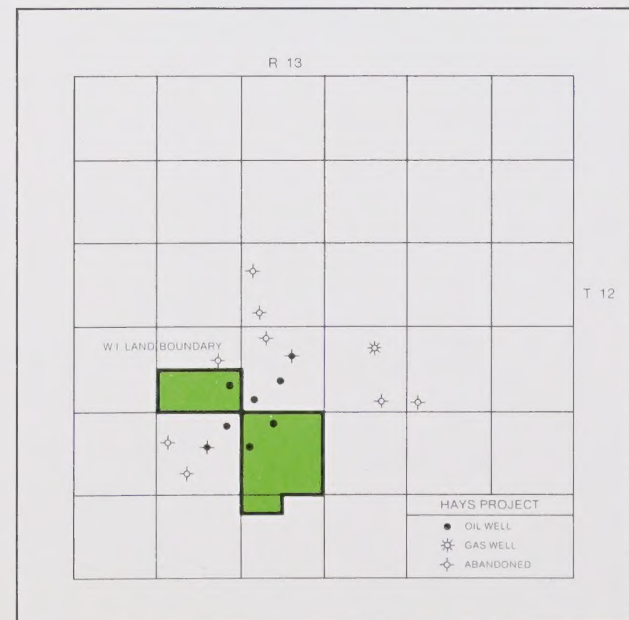
Grand Forks-Hays Project

Morrison has interests, varying from 5% to 35% in 21,200 acres in the oil-prone Grand Forks-Hays area of Southeastern Alberta. When Morrison acquired the properties in 1979, there existed 2 oil wells, 2 shut-in gas wells, 3 shut-in oil wells and 1 water injection well. To date, 7 additional wells have been drilled of which 4 are oil wells and 3 are dry holes. Morrison, at present, has an interest in 6 oil wells, 2 shut-in gas wells, 3 shut-in oil wells and 1 water injection well in the Grand Forks-Hays Project. There are many exploration and development possibilities remaining on the properties.



Sawtooth Project

Morrison is the operator and a 48% working interest owner in a regional oil and gas exploration program in Southern Alberta called the Sawtooth Project. To date, emphasis in the project has been on regional mapping and selective land acquisition. Only a modest amount of drilling has been completed so far which has resulted in 2 shut-in gas wells and 1 cased potential oil well. To date, in excess of 6,000 net acres have been acquired. Further drilling is anticipated in 1981.



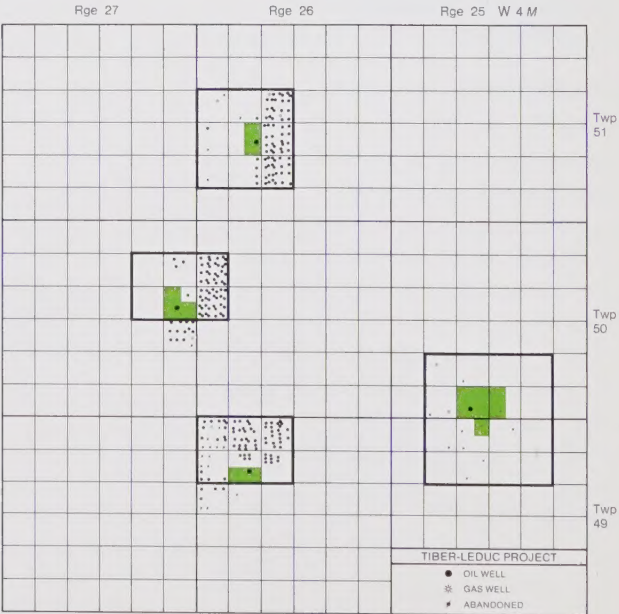
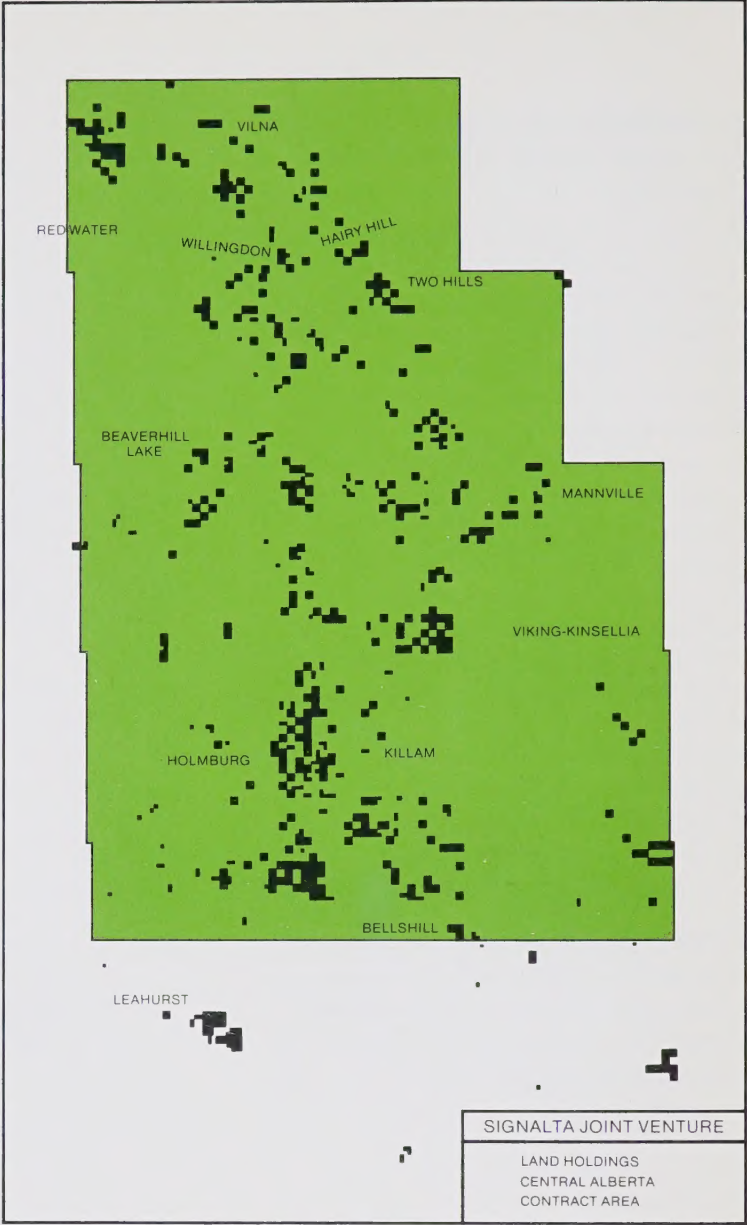
Signalta Joint Venture

The Signalta Joint Venture is Morrison's largest single oil and gas investment. In 1980, Signalta participated in the drilling of 144 exploration and development wells of which 101 were cased as potential producers resulting in a 1980 success ratio of 70%. Morrison has a 10% interest in the ongoing joint venture and a net reserves interest in on-stream gas of 7.3 billion cubic feet as at December 31, 1980.

Signalta has a gas purchase contract covering 192 Townships in East-Central Alberta (see accompanying map) and consequently is able to place discovered reserves on-stream and justify a continuing program. 1981 exploration activity is anticipated to equal that of 1980 during which Morrison contributed \$1,800,000 to the Joint Venture. Future cash flow to Morrison from the Joint Venture, as estimated by DeGolyer and MacNaughton, independent reservoir engineers, is estimated to be \$30,447,250 undiscounted or \$8,665,610 discounted at 15%.

Renaissance Joint Venture

Morrison participated with Renaissance Resources Ltd. in the 1977, 1978 and 1979-80 joint venture programs which were successful in establishing net to Morrison, in excess of 1.8 BCF of gas reserves. Most of these reserves are shut-in at present. Morrison also owns 31,250 shares in the equity of Renaissance Resources Ltd. (2.75% of outstanding shares) which, although a private Company, have appreciated substantially since their original purchase for \$1.00 per share.



OTHER PROJECTS

Morrison participated to the extent of 10% in 4 wells drilled by Tiber Resources Ltd. in 1980-81 in the Leduc area of Alberta, of which 2 were good oil discoveries and 2 were dry holes. Morrison participated in 1 dry hole in each of the Pocketknife area of British Columbia and the Tweedie area of Alberta.

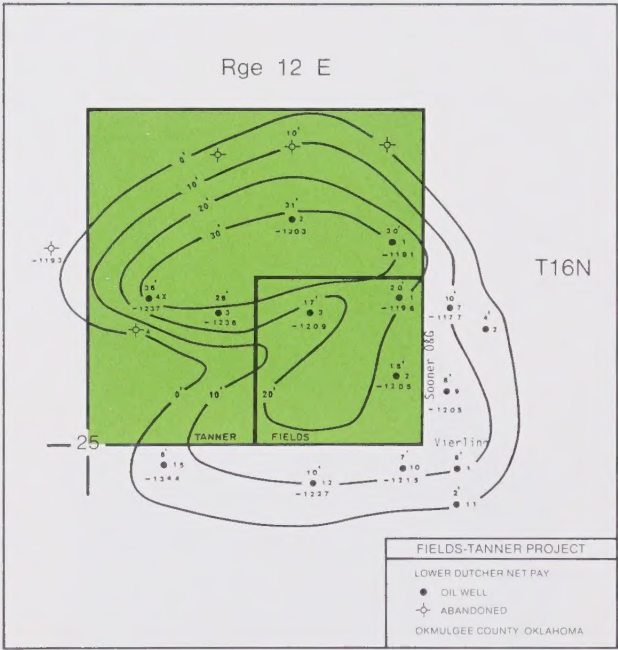
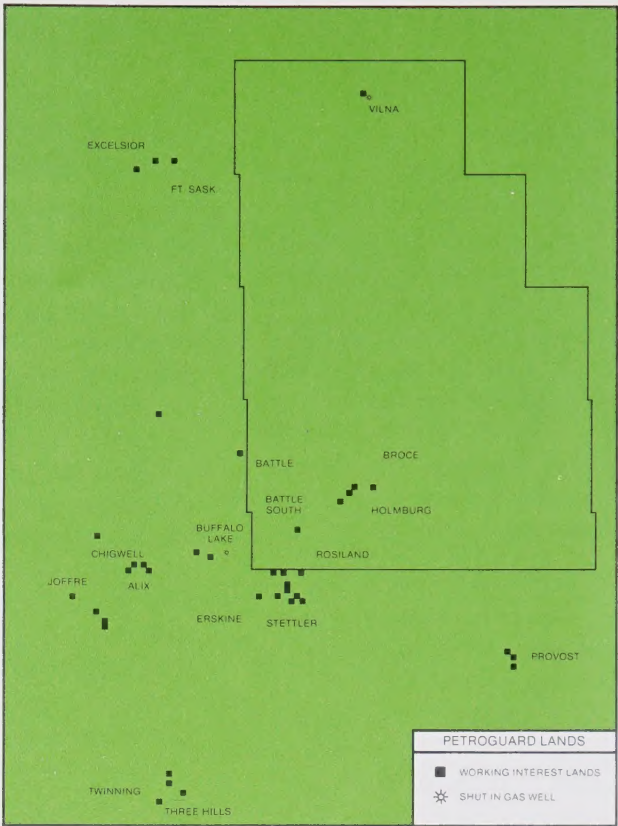
Through a wholly-owned subsidiary, Petroguard Limited, Morrison conducts a land-leasing program on prospects generated from previous geological study. To date, 10,016 net acres have been acquired. In addition, 2 gas wells were drilled at no cost to the Company in 1980.

AMERICAN OIL AND GAS EXPLORATION AND DEVELOPMENT

All U.S.A. operations of the Company are conducted by its wholly-owned subsidiary, Morrison Nuclear, Inc. (Delaware). This Company has recently been active in pursuing U.S.A. opportunities. The following summarizes activity in 1980 and to date.

Fields-Tanner Project

In September, 1980 Morrison Nuclear, Inc. purchased a 50% working interest in 7 producing oil wells south of Tulsa, Oklahoma. Since acquisition, the wells have performed well and, partially due to U.S.A. oil price decontrol, cash flow has exceeded expectations. Morrison has a net interest in this field of 70 barrels per day of oil production. We predict this field will be an excellent candidate for enhanced recovery by water flood and hence, anticipate this asset will be a strong cash producer for years to come. Recently, we have been successful in increasing our interest in the field by the purchase of an additional 6.25% interest.



Quad Joint Venture

The operator of the Fields-Tanner leases described above is Quad Oil Company of Bixby, Oklahoma. Quad has been successful in finding oil and gas in the Bixby-centred area of Oklahoma; Morrison participated with Quad in 2 wells in 1980 and committed to a 10-well program in 1981. Of the 1980 wells, 1 was a successful oil well, 1 a dry hole. In 1981, 6 wells have been drilled of which 1 was an oil well, 3 were gas wells and 2 were dry holes.

Orbit Montana Joint Venture

The progress of this joint venture has been reported to the shareholders in previous years. Recently, Morrison Nuclear, Inc. was able to negotiate a sale of the residual properties in the venture which netted Morrison \$300,000 plus a continuing overriding royalty on 16,500 acres in Montana and North Dakota. In addition, Morrison retains a 2.7% carried working interest in a successful Red River oil discovery drilled in 1980 which is now close to payout. Recently, an offset to the above well was completed as a successful Red River step-out. Morrison maintained its full 10% working interest in this well.

MINERAL EXPLORATION AND DEVELOPMENT

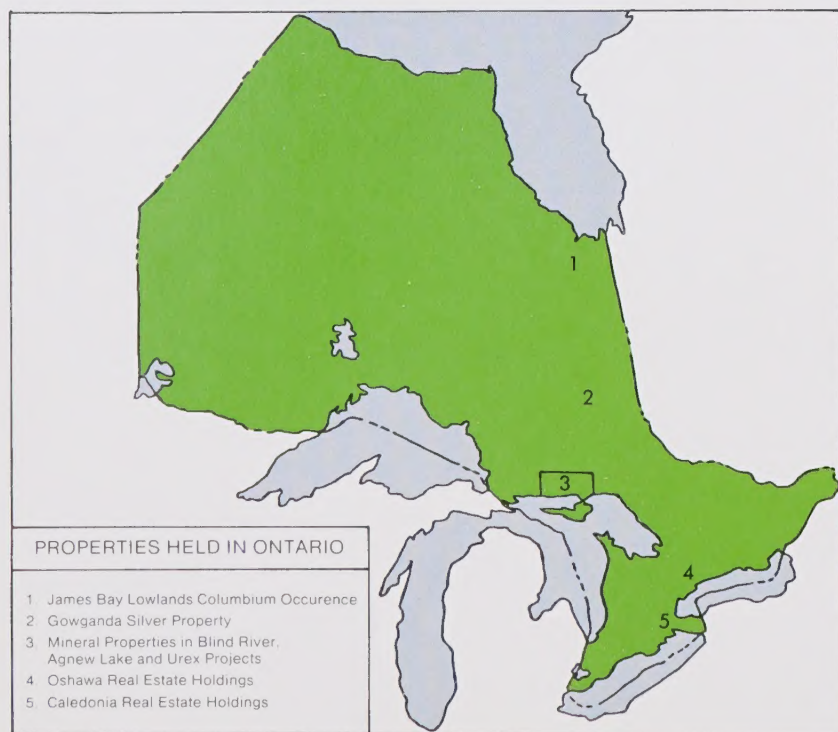
All mineral properties held at December 31, 1979 were maintained in good standing. These properties include the Columbium deposit near Moosonee, Ontario, the site of the Company's old silver mine at Gowganda, Ontario, an 82 claim block west of Blind River, Ontario and claims near Agnew Lake, Ontario. Morrison also retains an interest in numerous claims south of Flin Flon, Manitoba where a small amount of geophysical work was done in 1980 and a number of mineral claims in Newfoundland. During 1980, discussions were held with a major company to bring the Moosonee Columbium deposit on stream; however, no agreement has yet been reached.

Morrison is continuing to explore an interesting gold property in Western Australia. An agreement has been reached with Teck Exploration Ltd. whereby they will fund the next \$200,000 of expenditures to earn an interest in the property. Morrison is participating in a joint venture to explore for precious metals in North America

operated by Cangold Ltd. The initial budget for 1981 is \$500,000, of which Morrisons's share will be 25%.

REAL ESTATE

The Company continues to hold, for investment purposes, 200 acres of industrial lakefront acreage within the city limits of Oshawa, Ontario. In addition, the Company holds 175 acres of land in the town of Caledonia near the industrial city of Hamilton, Ontario. Our real estate assets have a market value significantly in excess of their reported book value.



MINERAL LANDHOLDINGS EFFECTIVE DECEMBER 31, 1980

	Gross Acres	Net Acres
Ontario	11,218	4,083
Newfoundland	113,033	90,426
Manitoba	12,260	3,310
Saskatchewan	24,560	7,122
Australia	6,732	2,693
	<u>167,803</u>	<u>107,634</u>

Consolidated Financial Statements

Consolidated Balance Sheet

as at December 31, 1980

Morrison Petroleums Ltd.

ASSETS

Current Assets	1980 \$	1979 \$
Cash and short-term deposits	3,317,070	
Accounts receivable (note 2)	964,596	2,592,286
Current portion of mortgages receivable	233,976	239,515
	<u>4,515,642</u>	<u>2,831,801</u>
 Investments		
Mortgages receivable (note 3)	1,994,054	1,994,054
Land held for investment (note 7)	1,439,779	1,375,251
Affiliated and other companies (note 4)	280,706	531,687
	<u>3,714,539</u>	<u>3,900,992</u>
 Property, Plant and Equipment		
Oil and gas (note 5)	8,463,357	3,461,581
Mining (note 6)	1,794,587	1,739,388
Fixed assets — at cost, less accumulated depreciation and amortization of \$80,485 (1979 — \$91,937)	107,289	53,023
	<u>10,365,233</u>	<u>5,253,992</u>
	 <u>18,595,414</u>	 <u>11,986,785</u>

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Morrison Petroleums Ltd. as at December 31, 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial

statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

April 24, 1981
Calgary, Alberta

LIABILITIES

Current Liabilities	1980	1979
	\$	\$
Bank indebtedness (note 2)	100,000	4,008,459
Accounts payable and accrued liabilities	380,581	393,316
Current portion of long-term debt	30,204	270,000
Cash call advances	245,677	
	756,462	4,671,775
Long-Term Debt (note 7)	233,008	1,528,433
Deferred Income Taxes	2,000,000	
	2,989,470	6,200,208

SHAREHOLDERS' EQUITY

Capital Stock (note 8)		
Authorized — 10,000,000 shares of no par value		
Issued and fully paid — 4,530,000 shares	5,411,504	5,411,504
Retained Earnings	10,194,440	375,073
	15,605,944	5,786,577
	18,595,414	11,986,785

Signed on Behalf of the Board


A. GORDON STOLLERY, Director


MICHAEL A. COLUMBOS, Director

Consolidated Statement of Earnings

For the Year Ended December 31, 1980

Morrison Petroleum Ltd.

Revenues	1980 \$	1979 \$
Oil and gas (net of royalties)	1,091,889	371,656
Dividends	279,000	382,500
Interest	589,319	291,290
Earnings (losses) of affiliated companies	15,011	(14,000)
Gain on disposal of mining and oil and gas properties		747,472
	<u>1,975,219</u>	<u>1,778,918</u>
Expenses		
Production and operating	137,430	51,404
Administration	577,763	199,480
Interest on long-term debt	6,845	151,043
Other interest	343,679	401,364
Depreciation, depletion and amortization	432,485	158,342
Mining exploration and abandonment	81,365	692,872
	<u>1,579,567</u>	<u>1,654,505</u>
Earnings Before Deferred Income Taxes and Extraordinary Item	395,652	124,413
Provision for Deferred Income Taxes	100,000	
Earnings Before Extraordinary Item	295,652	124,413
Extraordinary Item		
Gain on sale of investment (note 9)	9,523,715	
Net Earnings for the Year	9,819,367	124,413
Earnings Per Share		
Earnings before extraordinary item		
— basic	\$0.07	\$0.03
— fully diluted	\$0.07	\$0.03
Earnings for the year		
— basic	\$2.17	\$0.03
— fully diluted	\$2.07	\$0.03

Consolidated Statement of Retained Earnings

for the year ended December 31, 1980

Morrison Petroleum Ltd.

	1980 \$	1979 \$
Balance — Beginning of Year	375,073	250,660
Net earnings for the year	9,819,367	124,413
Balance — End of Year	10,194,440	375,073

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1980

Morrison Petroleum Ltd.

	1980	1979
	\$	\$
Source of Working Capital		
Earnings for the year before extraordinary item	295,652	124,413
Items not affecting working capital —		
Depletion, depreciation and amortization	432,485	158,342
(Earnings) losses of affiliated companies	(15,011)	14,000
Deferred income taxes	100,000	
Costs of abandoned mining properties written off		600,039
Gain on disposal of mining and oil and gas properties		(747,472)
Provided from operations	813,126	149,322
Proceeds on realization of investments	11,718,801	357,877
Proceeds on sale of property, plant and equipment	1,370	2,230,845
Issuance of long-term debt	41,818	1,528,433
	<u>12,575,115</u>	<u>4,266,477</u>
Use of Working Capital		
Expenditures on property, plant and equipment	5,545,095	3,470,374
Expenditures on investments	93,625	126,804
Repayment of long-term debt	1,337,241	
	<u>6,975,961</u>	<u>3,597,178</u>
Increase in Working Capital	<u>5,599,154</u>	669,299
Working Capital Deficiency — Beginning of Year	<u>1,839,974</u>	<u>2,509,273</u>
Working Capital (Deficiency) — End of Year	<u>3,759,180</u>	<u>(1,839,974)</u>

Notes to Consolidated Financial Statements

for the year ended December 31, 1980

Morrison Petroleum Ltd.

1. Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The purchase method is used to account for the acquisition of subsidiary companies.

Foreign Currency Translation

The accounts of the United States subsidiary have been included in the consolidated financial statements in Canadian dollars. Current assets and current liabilities have been translated at the rate in effect at the balance sheet date. Non-current assets and non-current liabilities have been translated at applicable historical rates. Operating results for the period are translated at the average monthly rate of exchange during the period except for depletion, depreciation and amortization which are translated at historic rates.

Gains and losses on translation are recorded in the statement of earnings.

Joint Ventures

The company's exploration and production activities related to oil and gas are conducted jointly with others and accordingly the accounts reflect only the company's proportionate interest in such activities.

Land Held for Resale

Land held for resale is carried at cost plus carrying charges such as professional fees, property taxes and interest, less rental income.

Affiliated and Other Companies

Investments in shares of affiliated companies are accounted for by the equity method, since the company exercises significant influence over their operations. Investments in shares of other companies are carried at cost or cost less amounts written off.

Oil and Gas Properties

The company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and the development of oil and gas reserves are capitalized. These costs include leasehold acquisition costs, geological and geophysical expenses, carrying charges of non-producing properties, costs of drilling wells, oil and gas production equipment and overhead expenses related to exploration activities. Proceeds received from the disposal of properties are normally credited against accumulated costs. When a significant portion of properties is sold, a gain or loss is recorded and reflected in the earnings statement.

Depletion of exploration and development costs and depreciation of production equipment is provided on the unit of production method based upon the estimated proven oil and gas reserves.

Mining properties

The Company is in the process of exploring its mining properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of expenditures on mining properties and related deferred costs is dependent upon the existence of economically recoverable reserves, the ability of the company to obtain necessary financing to complete the development, and upon future profitable production.

Exploration expenses and the cost of claims relating to mining properties are deferred until the properties are

brought into production, at which time they are amortized on a unit of production basis, or until the properties are abandoned or sold or considered to be of little future value, at which time they are written off.

Fixed assets

Depreciation of fixed assets is provided on the diminishing balance method at rates varying from 5% to 30%.

Income Taxes

Income taxes are provided, at current rates, for all items included in the statement of earnings regardless of the period when such items are reported for income tax purposes. The principal items which result in timing differences for financial and tax reporting purposes are depletion, depreciation and amortization. No adjustment is made to deferred income tax accounts for subsequent changes in income tax rates.

Earnings Per Share

Earnings per share are calculated on the basis of the weighted average number of shares outstanding during the respective fiscal years. Fully diluted earnings per share have been calculated as if shares committed in accordance with the share purchase plan agreement, share option and share exchange agreements had been issued at the beginning of the year and the potential funds therefrom yielded interest at current rates.

2. Bank Loans

The company has assigned its book debts as security for a revolving bank line of credit.

The company is contingently liable as guarantor of the bank loans of affiliated companies up to an amount of \$350,000.

3. Mortgages Receivable

	1980	1979
	\$	\$
9% mortgage due in 1986	1,205,054	1,205,054
10% mortgage due in annual instalments to 1982	1,022,976	1,028,515
	<u>2,228,030</u>	<u>2,233,569</u>
Less: current portion	233,976	239,515
	<u>1,994,054</u>	<u>1,994,054</u>

4. Investment in Affiliated and Other Companies

	1980	1979
	\$	\$
Affiliated companies — including \$36,025 (1979 — \$21,014) of accumulated earnings	227,548	196,064
Other companies — Listed shares, market value \$21,600 (1979 — \$32,583)	3,001	34,312
Unlisted shares	50,157	37,534
Noranda Mines Limited	—	263,777
	<u>280,706</u>	<u>531,687</u>

5. Oil and Gas Properties

	1980			1979
	Cost	Accumulated depletion and depreciation	Net	Net
	\$	\$	\$	\$
Oil and gas properties	8,114,783	391,745	7,723,038	3,310,264
Tangible production equipment	905,981	165,662	740,319	151,317
	<u>9,020,764</u>	<u>557,407</u>	<u>8,463,357</u>	<u>3,461,581</u>

6. Mining Properties

	1980	1979
	\$	\$
Mining claims	688,647	688,647
Deferred exploration expenditures on mining claims	1,105,940	1,050,741
	<u>1,794,587</u>	<u>1,739,388</u>

7. Long-Term Debt

Long-term debt consists of mortgages payable which bear interest mainly at 10½%. Principal repayments are due as follows:

	\$
1981	30,204
1982	30,235
1983	31,271
1984	130,813
1985	360
1986-2005	40,329
	<u>263,212</u>
Less current portion	<u>30,204</u>
	<u>233,008</u>

Interest on long-term debt amounted to \$41,208 (1979 — \$166,818) of which \$34,363 (1979 — \$15,775) was capitalized as land held for resale.

The term bank loan of \$1,546,933 outstanding as at December 31, 1979 was repaid during the current year.

8. Capital Stock

Effective October 30, 1979, the company established a stock purchase plan and trust agreement whereby 200,000 shares of the company were reserved for purchase by employees of the company. These shares may be purchased at 85% of market value by means of an interest free loan from the company. As at December 31, 1980, the

company had received subscriptions from two employees to purchase 110,000 shares of the company for an aggregate consideration of \$308,450 in seven year non-interest bearing promissory notes.

The company has granted a share option of 50,000 shares to a consultant to the company. The option is exercisable at \$2.21 per share and expires in August 1982.

9. Extraordinary Item

The company sold its investment of 450,000 shares of Noranda Mines Limited for cash of \$11,718,801 resulting in a gain of \$11,423,715. The extraordinary item consists of the gain on the sale of the shares net of \$1,900,000 in deferred income taxes.

10. Related Party Transactions

a) During the year, the Company exercised its first right of refusal to purchase certain oil and gas properties owned by an officer and director of the Company for a total consideration of \$150,000.

b) Under the terms of a share exchange agreement, dated December 1, 1980 between an officer and director of the company, the company will acquire all of the issued and outstanding shares of 124245 Resources Limited for a total consideration of 50,000 shares of Morrison Petroleum Ltd. These shares were subsequently issued in March, 1981. 124245 Resources Limited's assets as at the effective closing dated consisted of 45% of the issued common shares of Petroguard Limited, an oil and gas exploration company. At December 31, 1980 Morrison Petroleum Ltd. owned the remaining 55% of the issued common shares of Petroguard Limited.

11. Other Information

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

The company changed its name from Consolidated Morrison Explorations, Limited to Morrison Petroleum Ltd. during the year.

The following table summarizes the Company's revenues, net earnings and total assets by geographic area:

	1980		1979	
	Canada	United States	Canada	United States
	\$	\$	\$	\$
Revenue	1,676,478	298,741	808,243	223,203
Net (loss) earnings before extraordinary item	191,223	104,429	135,324	(10,911)
Total assets	15,820,219	2,775,195	11,884,410	102,375

